



# Chairman's Statement



Dear Shareholders,

While intensified competition in Mainland China's telecommunications market and the sudden outbreak of Severe Acute Respiratory Syndrome, or SARS, in certain regions of China appreciably affected the Company's operations during the first half of 2003, the Company maintained its position as the market leader in Mainland China's mobile telecommunications industry. By unswervingly pursuing development strategies focused on its core mobile telecommunications business, proactively leveraging its advantages of scale, network quality, technologies and services and adopting effective competitive strategies to maintain its sound fundamentals, the Group enhanced its overall competitiveness and achieved continued growth, obtained favorable financial results, and maintained its solid capital structure.

The Group obtained satisfactory financial results. By leveraging its advantage of scale and through resource integration and efficient management, the Group maintained favorable operational efficiency during the first six months of 2003. In response to pricing pressures from its competitors, the Group implemented effective competitive strategies that sustained steady growth in total revenue. As a result of encouraging business growth, aggressive cost controls, effective management of capital expenditures, and given that the implementation of certain capital expenditure plans was deferred in the aftermath of the SARS outbreak, the Group recorded strong free cash flow in the first half of 2003. In the first six months of 2003, the Group's operating revenue reached RMB76,657 million, representing an

increase of 39 per cent. over the same period in the 2002 financial year. EBITDA reached RMB45,201 million, representing an increase of 35 per cent. over the same period last year. EBITDA margin was maintained at a relatively high level of 59.0 per cent. Net profit reached RMB17,469 million, representing an increase of 13 per cent. from the same period in 2002, and the Group's earnings per share was RMB0.89, representing an increase of 7 per cent. compared with the same period in the prior year. In the year following completion of the acquisition of Anhui Mobile and the other seven mobile telecommunications companies, controls have been broadly invigorated, with improvement evidenced by enhanced operational efficiency and synergy contributing positively to the Group's overall performance.



## Chairman's Statement

For ease of comparison, assuming that the existing corporate structure of the Group with 21 operating subsidiaries has been in place since 1 January 2002, the Group's operating revenue for the first half of 2003 increased by 9 per cent. compared to the pro-forma combined figure over the same period in year 2002. EBITDA increased by 9 per cent. compared to the pro-forma combined figure over the same period last year. Net profit increased by 3.5 per cent. compared to the pro-forma combined figure over the same period in 2002. The Group wishes to highlight that new businesses, principally its Short Message Service ("SMS"), maintained its remarkable growth momentum and has become a key driver of the Group's overall revenue growth. In the first six months of 2003, revenue from new businesses reached RMB6,392 million, representing an increase of 86 per cent. compared to the pro-forma combined figure over the same period in 2002. In particular, revenue from new businesses accounted for 8.3 per cent. of the Group's total operating revenue, representing an increase of 3.4 percentage points compared to the pro-forma combined figure over the same period last year, reflecting significant potential for future growth.

During the first half of 2003, the Group's business showed continued growth. Taking its cues from the market, the Group adopted rational and effective competitive strategies, actively conducted brand promotion and marketing, developed comprehensive new businesses, further improved the customer service process, integrated sales and distribution channels, and launched special promotional packages tied to usage volume to fully leverage our available network

capacity. Increasing customer satisfaction while maintaining the steady growth in subscriber base and usage volume, the Group benefited from price elasticity such that, notwithstanding the decline in revenue per minute, ARPU remained relatively stable and operating revenue recorded steady growth. As a result, the Group was able to maintain its leading position, notwithstanding intensified competition in Mainland China's telecommunications market. The Company's 21 subsidiaries in Mainland China maintained satisfactory growth in subscriber base, which reached 129.1 million as at 30 June 2003, representing a net increase of 11.41 million from the end of 2002. Usage volume for the first half of 2003 reached 161.9 billion minutes, representing an increase of 33 per cent. when compared to the pro-forma combined figure over the same period in 2002.

The Group's brand enhancement and restructuring initiatives have produced initial results. While continuing to promote the exclusive "GoTone" brand in 2003, the Group concurrently kicked-off a full-scale launch of "M-Zone" services, which combine voice with various data businesses to address the needs of the trendy youth market throughout its service areas. "M-Zone" achieved a base of 5.47 million subscribers as at the end of June 2003. It is worthy of note that as much as one-third of operating revenue attributable to the Group's "M-Zone" subscribers is derived from new businesses. The Group's new businesses, in particular its SMS, sustained continued, rapid growth. SMS usage for the first half of 2003 reached 40.7 billion messages, representing an increase of 144



per cent. when compared to the pro-forma combined figure over the same period last year. The Group's mobile data businesses users reached 83.05 million and the Group's Multimedia Messaging Services ("MMS") business is progressively winning recognition from the market. At the same time, in order to anticipate market needs and leverage our competitive advantages, the Group cooperated with various service providers to launch new and innovative businesses, such as "e-Freedom", "Color Ring", "Treasure Box (Java)", and "Voice-SMS Interaction". The Group has promoted the rapid development of its mobile data businesses, reinforced consumer differentiation, and consolidated its leading position in these areas.

Superior mobile services are facilitated and ensured by enhanced, premium networks. In the first half of 2003, the Group improved network optimization, consolidating its coverage advantages in key urban areas and traffic arteries. The Group has developed a centralized network management model and has effectively reduced management costs. Concurrently, the Group has actively pursued research to develop new technologies and promote new telecommunications standards and specifications. A number of network management standards developed through research led by the Group have been adopted by the Ministry of Information Industry as industry standards in Mainland China.

In the first half of 2003, the Group further upgraded its comprehensive management system, successfully linking budget management with performance and remuneration management, in a closed loop, with a view to maximizing the

effectiveness of its incentive mechanisms in the drive to improve the performance of the Group and its employees. Also, as a listed public company, the Company resolves to operate in a proper manner and uphold a high standard of corporate governance. In 2003, the Company strengthened its internal audit management and, through rigorous information disclosure procedures and internal controls, endeavoured to ensure optimal communication with investors and ensure the truthfulness, accuracy and timeliness of its corporate disclosures.

The Company has always emphasized the importance of corporate social responsibility and support for the community. In the first half of 2003, the Group aligned with various sectors of the community to combat the SARS outbreak by ensuring the availability of telecommunications services. The Group also made charitable donations to relevant healthcare providers and employed its own network resources to disseminate the latest SARS-related news to its customers, free of charge, via its short message platform, thereby enhancing the Group's corporate profile while serving the needs of the community.

The Company's outstanding performance has won popular recognition and acclaim. In 2003, the Company was selected by *BusinessWeek* as one of the "Info Tech 100", and ranked first in its "The Top 200 Emerging-Market Companies" for the fourth consecutive year. Also in 2003, the Company was named "Best Financial Management" in China in *FinanceAsia's* "Asia's Best Companies 2003" survey; was again inducted into the renown American business magazine *Forbes'* "The A-List: The World's 400 Best Big Companies", and was the only company in Mainland China to receive this





## Chairman's Statement

honor on two separate occasions; and advanced to 100th place in 2003, from 159th place in 2002, in *Forbes'* "The Global 500".

The Company holds in highest regard the interests of its shareholders and the returns achieved for them, especially the minority shareholders. Having taken into account various relevant factors, including the Company's sustained sound fundamentals, the Board has resolved to pay the Company's first ever *interim* dividend, in the amount of HK\$0.16 per share, for the year 2003, representing half of the dividend paid for the full year of 2002. The full year's dividends for the 2003 financial year will be determined by the Board following a review of the Company's full-year annual results and will take into account such factors as future business development, asset acquisitions, and the financial and cash flow position of the Company. The Board considers that the Company's strong free cash flow is capable of supporting the investments required to maintain the stable growth of the Company while also providing shareholders with a favorable cash return. The Company will endeavour to achieve a sustainable and steadily increasing dividend in the long run, with a view to generating the best possible return for shareholders.

Looking ahead, Mainland China's macro-economic development is expected to maintain a trend of steady growth, with a continued increase in consumer purchasing power, providing enormous market capacity and opportunity for the Company's future development. Following Mainland China's entry into the World Trade Organization, various domestic reforms will be implemented and the regulation of Mainland China's telecommunications market will develop along a more fair, open

and transparent path, more closely aligned with international practice. These developments will provide the Group with further development opportunities and an external competitive environment that is more rational and orderly. Nonetheless, the expansion of the "Xiaolingtong" service areas across Mainland China and the encroaching expansion of the CDMA network continue to present a serious challenge to the Group's development. The future competitive environment will be increasingly intense, with growing competitive pressures. The Group will maintain its competitive advantages by further leveraging its advantages of scale, network quality, products and services, management and technologies, to target differentiated customer segments, further integrate its brands, and proactively develop mobile data and other new businesses, through continuous business and service innovation. The Company will consistently pursue the complementary development strategies of organic and external growth; adhere to a philosophy that Company management must always be candid, receptive, innovative, resolute, and focused on its core mobile telecommunications business, to maintain sound fundamentals and a solid financial position, consolidate its leading market position and maintain sustainable development, in order to generate greater value for our shareholders.



**Wang Xiaochu**

*Chairman and Chief Executive Officer*  
Hong Kong, 12 August 2003